VZCZCXRO1729
RR RUEHBZ RUEHGI RUEHTRO
DE RUEHFR #2004/01 3051741
ZNR UUUUU ZZH
R 311741Z OCT 08 ZDK CIT NUMEROUS SVCS
FM AMEMBASSY PARIS
TO RUEHC/SECSTATE WASHDC 4712
INFO RUEATRS/DEPARTMENT OF TREASURY WASHDC
RUEKJCS/SECDEF WASHINGTON DC
RUEHRL/AMEMBASSY BERLIN 6872
RUEHSW/AMEMBASSY BERN 2156
RUEHBS/AMEMBASSY BRUSSELS 6834
RUEHCP/AMEMBASSY COPENHAGEN 1616
RUEHLO/AMEMBASSY LONDON 7013
RUEHMD/AMEMBASSY MADRID 2884
RUEHMO/AMEMBASSY MOSCOW 6210
RUEHNY/AMEMBASSY OSLO 1665
RUEHRO/AMEMBASSY ROME 8953
RUEHSM/AMEMBASSY STOCKHOLM 1682
RUEHTC/AMEMBASSY THE HAGUE 3039
RUEHKO/AMEMBASSY TOKYO 2855
RUEHBS/USEU BRUSSELS 2423
RUEHLU/AMEMBASSY LUANDA 1003
RUEHGI/AMEMBASSY BANGUI 0298
RUEHRY/AMEMBASSY CONAKRY 0121
RUEHBZ/AMEMBASSY BRAZZAVILLE 0205
RUEHGB/AMEMBASSY BAGHDAD 0159
RUEHAM/AMEMBASSY AMMAN 1234
RUEHMV/AMEMBASSY MONROVIA 7412
RUEHTH/AMEMBASSY ATHENS 0804
RUEHKI/AMEMBASSY KINSHASA 1707
RUEHAB/AMEMBASSY ABIDJAN 1301
RUEHLC/AMEMBASSY LIBREVILLE 1443
RUEHPC/AMEMBASSY LOME 1170
RUEHBU/AMEMBASSY BUENOS AIRES 1593
RUEHKH/AMEMBASSY KHARTOUM 0363
RUEHWR/AMEMBASSY WARSAW 0885
RUEHBR/AMEMBASSY BRASILIA 2086
RUEHCH/AMEMBASSY CHISINAU 0441
RUEHJB/AMEMBASSY BUJUMBURA 0149
RUEHTRO/AMEMBASSY TRIPOLI 0192
RUEHBJ/AMEMBASSY BEIJING 1815
RUEHUL/AMEMBASSY SEOUL 1584
RUEHAK/AMEMBASSY ANKARA 0989
RUEHTV/AMEMBASSY TEL AVIV 0034
RUEHSA/AMEMBASSY PRETORIA 1618
RUEHKU/AMEMBASSY KUWAIT 0265
RUEHAD/AMEMBASSY ABU DHABI 0297
RUEHPL/AMEMBASSY PORT LOUIS 1023
RUEHPS/AMEMBASSY PRISTINA
RUEHIL/AMEMBASSY ISLAMABAD 0811
RUEHDJ/AMEMBASSY DJIBOUTI 0937
RUEHBH/AMEMBASSY NASSAU 0103
RUEHUB/USINT HAVANA 0107

UNCLAS SECTION 01 OF 17 PARIS 002004

SENSITIVE
SIPDIS

STATE FOR EEB/IFD/OMA
TREASURY FOR DO/IDD AND OUSED/IMF
SECDEF FOR USDP/DSCA
PASS EXIM FOR CLAIMS - MPAREDES
PASS USDA FOR CCC -- ALEUNG/WWILLER/JDOSTER PASS USAID FOR CLAIMS --
WFULLER
PASS DOD FOR DSCS -- PBERG

E.O. 12958: N/A
TAGS: EFIN ECON EAID XM XA XH XB XF FR
SUBJECT: PARIS CLUB - OCTOBER 2008 TOUR D'HORIZON AND DISCUSSIONS
ON METHODOLOGICAL ISSUES

PARIS 00002004 001.2 OF 017

¶1. (SBU) Summary: The October 2008 Paris Club Tour d'Horizon

included Argentina, Congo-B, Cote d'Ivoire, Cuba, DRC, Iraq, Liberia, the Seychelles, and Togo. Paris Club Co-Chairman Coeure reported that, in an earlier conversation with the Paris Club Secretariat, Argentine Minister Fernandez had reaffirmed the GOA's intention to proceed with the Paris Club payment, including early repayment. The Paris Club Secretariat reiterated Club members' expectation to be paid in full, including all late interest. Fernandez replied that discussions with President Fernandez de Kirchner had been progressing slowly regarding the politically sensitive late interest issue. The IMF did not request financing assurances for Congo-B as had been expected, since the Fund had not concluded its discussions with the authorities. Creditors expressed strong concerns about (1) a proposed $1.2 billion loan from China, and (2) a goodwill payment to litigating creditors. The Fund may request assurances in early November via a conference call in place of a Tour d'Horizon meeting. Given these concerns we and the other major creditors will need to make decisions on whether we are willing to move forward.

¶2. (U) The Club also discussed various methodological issues (seniority, phases) and reached an Evian Terms rescheduling with Djibouti after an unexpectedly contentious negotiation. (The U.S. was not a creditor.) End Summary.

ARGENTINA

¶3. (SBU) Club Co-Chairman Benoit Coeure reported on the previous

weekend's discussions with Argentina. As agreed with the Club, the Secretariat had told the Argentines that the Club expected to be paid in full. Minister Fernandez affirmed that Argentina did intend to proceed with the Paris Club payment - including early repayment - and that news stories to the contrary had been in error. He had stated that President Fernandez de Kirchner's commitment remained, so it was "out of the question" for Argentina to change its position and that the financial crisis had not affected the GOA's desire to repay. The financial crisis would not have much of an impact on Argentina, he said, and the GOA wanted to complete the transaction quickly. The Secretariat had replied that the way to do so was to pay in full, including all late interest. Fernandez replied that he had taken note and would need to discuss the issue with President Fernandez de Kirchner. Lorenzino noted it had not been possible to make any progress on the political front regarding the late interest issue but discussions were still ongoing with President Fernandez de Kirchner's staff.

¶4. (SBU) The Secretariat reported that over 97 percent of principal and interest had been reconciled, and that outstanding items were all special cases. The Argentines had indicated that they did not yet have a mandate to reconcile late interest, however.

¶5. (SBU) The IMF representative then reported on Argentina's situation. He indicated that stock and bond prices had fallen sharply, that credit growth was rapidly declining and that default indicators were rising rapidly. The EMBI had shot up by 1,200 b.p. and international lines of credit to Argentine companies were under threat. The Central Bank had been intervening heavily in both directions, but reserves remained stable at about $47 billion.

Short-term financing needs were covered, there had been no large outflows, and domestic markets were calm - all indications that Argentina was still in a position to pay. The World Bank representative agreed that Argentina was reasonably well placed, with well-capitalized banks enjoying strong cash flow. Argentina's premia were still the highest in the LAC region however, and it would be difficult for the country to maintain its twin surpluses in the medium term.

¶6. (SBU) Austria, echoed by Germany, asked whether the Secretariat had signaled flexibility on the part of the Club. Coeure replied

that the Secretariat had no mandate to discuss concessions on late interest, and that any mention of such would be a sign of weakness on the part of the Club. The U.S. agreed that the PCS had no mandate to discuss concessions, a position that was quickly affirmed by Canada, Italy, Japan, the Netherlands, Switzerland and the U.K. The discussion concluded with the Secretariat expressing the view that the ball was back in Argentina's court.

CONGO-BRAZZAVILLE

¶7. (SBU) At the September meeting, the Fund had indicated that it would request financing assurances in October, but it did not do so. While the Fund representative reported again that broad agreement had been reached on a Poverty Reduction and Growth Facility (PRGF), discussions had continued during annual meetings, and assurances would likely be requested in November.

¶8. (SBU) Two major issues were of concern to creditors -- China and litigating creditors. Chinese loans were the subject of G-7 Debt Experts' exchanges before the meeting. The Fund representative reported that there had been three loans in 2005 and 2006, two of which met the PRGF's concessionality requirements, and the third, used to purchase an aircraft, had been granted a waiver. In June 2006 the Congo-B and China signed a framework agreement covering oil exploration, infrastructure, and social development. IMF officials claimed the agreement was for $1.2 billion, although the financial agreements had not yet been signed. GOC officials told Fund staff it had initiated these projects using domestic financing - up to 15 percent of the total financing cost. The authorities had declined to provide details of the loans to the IMF mission, though they had assured Fund staff that the grant element would be greater than 50 percent, as required by the PRGF.

¶9. (SBU) The Fund reported that Congo-B had reached a standstill agreement with its litigating creditors, under which the creditors had agreed not to attempt to seize assets, and the country had made a CFA12 billion (about $27 million) goodwill payment in return. A comprehensive settlement was apparently close at hand, but the authorities had refused to discuss the possible terms with the Fund mission. Creditors were obviously concerned about comparability, but the Fund representative could only say that he assumed that the mission had informed the authorities of their obligations.

¶10. (U) The Bank indicated that a full Poverty Reduction Strategy Paper was being discussed and that Executive Directors had recently welcomed progress on triggers. Finalization of a new Debt Sustainability Analysis was underway; it would show an improved

outlook due to debt relief delivered (principally London Club relief) and rising oil revenues. Germany asked whether another letter should be sent to the authorities or the IMF; the Secretariat suggested waiting until the IMF had made more progress on its attempts to clarify issues.

COTE D'IVOIRE

¶11. (SBU) IMF reported that a mission had just returned from Cote d'Ivoire. They had concluded that the growth rate would likely double, as programmed in the $66 million April Emergency Post-Conflict Assistance package (EPCA), and that exports, investor confidence, and private investment were all rising, as was inflation. The global crisis had not had much impact, though it could if commodity prices were to fall. Cote d'Ivoire had made progress in many areas, but there had been significant fiscal slippages, due to higher than expected spending on food and fuel subsidies and payments (in oil) to reconstruct the new capital at Yamoussoukro. On the latter, authorities indicated they were bound

to provide 2.7 million barrels a year under a 2004 contract. The authorities had agreed with the mission that they would take steps to meet the fiscal targets, and build in additional safeguards.

¶12. (SBU) With World Bank arrears cleared, and AfDB arrears about to be, the PRGF was the essential next step. The AfDB clearance had been delayed due to financing problems in the West African Economic and Monetary Union (WAEMU). The country had paid CFA 30 billion, financed through syndicated short-term loans from local branches of

two international banks. On arrears clearance, AfDB would provide CFA 30 billion in budget support.

¶13. (U) The PRGF would focus on creating fiscal space, enhanced public financial management, civil service reform, and debt sustainability. Fund staff would be ready to support a PRGF once there was final agreement on addressing the fiscal slippages. The Bank representative reported that there was agreement on triggers, but that the preliminary Heavily Indebted Poor Country (HIPC) document had been delayed due to the IMF issues. The Bank expected a Board discussion in December. Most Bank HIPC relief would come through arrears clearance; the rest would be IDA resources to cover IBRD payments.

CUBA

¶14. (SBU) The discussion on Cuba centered on the question of whether discussions should be pursued outside the Club. The previous month, creditors had requested information about previous attempts to treat the debt, under the rubric of the "Group of Creditors of Cuba." The Secretariat reported that there had been a total of four restructurings, but that Cuba continued to accumulate arrears. The most recent discussions had taken place in 2001, but had not reached agreement since ideas differed regarding conditionality and the method of evaluation of payment capacity. The Cubans had wanted debt reduction, but creditors were unwilling, so there had been only a Chairman's Summary, which had endorsed separate discussions of bilateral short-term debts only. The Secretariat distributed a

paper on the 2001 discussions.

¶15. (SBU) Adding impetus to the discussions, Spanish Foreign Minister Moratinos had publicly said in Havana the day before that Spain would restructure part of its claims on Cuba and open a new line of credit. Spain reported that the Minister's statement referred only to short-term debt, which included the assistance cooperation following this summer's natural disasters, as authorized in the Chairman's summary.

¶16. (SBU) Japan volunteered that Cuba had offered the previous month to pay short-term debts and arrears. The Japanese said they considered Cuba's proposal acceptable, and noted that discussions were ongoing.

¶17. (SBU) Germany said Cuban banking officials confided that the country's main problem was $1.7 billion in oil costs coupled with another $800 million in food and other public expenses. They admitted the country was basically bankrupt but that Cuban officials didn't want to claim bankruptcy. The Cuban delegation that visited Berlin had not appeared to be aware of the Cuban central bank's interest in discussions on debt.

¶18. (SBU) France asked whether the Group of Creditors should send a letter to Cuba in response to the Cuban central bank's earlier approach to the Secretariat. Most creditors thought that the onus should be on Cuba to write first.

¶19. (SBU) The U.S. noted that Cuba was not a member of the IMF and did not have an IMF program, and that any movement to restructure

should await a Fund program and a clear commitment to economic reform. It noted that poorer countries than Cuba met these requirements, and that providing treatment to a Cuba that did not undermines the requirements imposed on other debtors. Coeure responded that the U.S. position was very clear.

DRC

¶20. (SBU) A recent Fund mission had concluded that performance on the Staff Monitored Program (SMP) had been broadly satisfactory, and that the program had been extended through year-end. GDP growth was expected to be about 10 percent, driven by robust construction and mining activity. Inflation, however, had reached 24 percent by the end of September, driven mostly by world food and fuel prices. To address this, the authorities were considering lowering tariffs on foodstuffs. The mission had also concluded that there had been progress on public financial management.

¶21. (SBU) Authorities had agreed that the proposed borrowing from China did carry sovereign guarantees, was non-concessional, and that earmarked revenues for repayments meant that the debt was government-contracted. The authorities justified the proposal on the grounds that it would keep growth in the double digits. (The Fund believed that double-digit growth was possible for a few years, but that it would fall back to 5-6 percent in the longer term and was concerned the country would remain highly vulnerable to oil shocks. Bank officials noted the DRC relied on exports that are highly susceptible to international shocks as well.) The

authorities had agreed that the final terms would not be determined until after the feasibility study was released, in the first quarter of 2009. Staff agreed to wait for the study and noted there would be no PRGF request until a debt sustainability analysis was completed.

¶22. (SBU) Creditors expressed strong concern about the loans, with the Netherlands calling it a major test case of free riding, "a really huge one." There was considerable support for a Paris Club letter, either to the DRC or to China. The IMF warned not to expect any high-level meetings with the Chinese on this issue as it was not a part of the IMF's mandate.

¶23. (SBU) The Secretariat and some creditors were concerned that a letter to China could derail the Club's attempts to improve relations with that country, and it was eventually agreed that there would be no action until after the feasibility study had been released.

¶24. (SBU) Germany asked if the IMF would intervene to interpret the results of the feasibility study, noting the original contract was 500 pages long, written in Chinese, and there was concern GDRC officials didn't understand what they were signing at the time. Fund staff said if there were issues with the study, they would share those concerns with officials in its capacity as an advisor to DRC authorities.

¶25. (SBU) The Secretariat noted that club members, as a symbolic gesture, could restart billing the DRC since it had been off-track for a long time, as a way to send the message that creditors'

patience was waning.

IRAQ

¶26. (SBU) The Iraq discussion was an update from the IFIs, in advance of the final tranche of debt relief being delivered at the end of the year. The Fund reported that oil production and exports were running ahead of projections, and that macro performance was in general acceptable. Iraq had passed the first review of its program on Sept. 3, and a mission had just left, for Baghdad to ensure that the final review would be completed before year's end, as required by the Agreed Minute. The Bank reported that Iraq continued to have difficulty spending its resources, so the Bank was providing tactical and sectoral assistance as well as economic advice. An interim strategy note focusing on improving the GoI's capacity to utilize its own resources in a transparent manner would be released soon and would contemplate some IBRD support.

LIBERIA

¶27. (U) Liberia had not been on the agenda, but the Secretariat reported that it had been contacted by authorities, who had requested an extension of the bilateral signing deadline. Extension to March 31, 2009 was agreed.

SEYCHELLES

¶28. (SBU) The IMF reported rapid progress towards agreement on a program, with a request for financing assurances and a Board date possible in November. (The U.S. is not a creditor.) The program envisaged far-reaching reforms, including monetary and fiscal tightening (to a primary surplus of 6 percent of GDP), and changes in the exchange rate regime. The program would also include elimination of tax exemptions, reductions in public employment, and the replacement of subsidies with a targeted safety net.

¶29. (SBU) Fund staff noted near exhaustion of the country's reserves and Seychelles had continued to default, having missed an October 3 Eurobond payment. They had been meeting with creditors, and had hired Houlihan as advisors. Following the defaults, S&P had downgraded the country to D ('default') with a recovery rating of 4 (average recovery expected to be 30-50 percent.)

¶30. (SBU) The Bank added that it was providing technical support in a number of sectors, including a project in response to a GoS request to improve efficiency of pricing. An interim strategy note in the works should be ready for presentation in early 2009. The Bank representative noted that Seychelles had one of the highest public debt/GDP ratios on earth. A credible and comprehensive debt workout plan and a clear GOS commitment would be prerequisites for any new lending. Bank staff noted IDB lending would likely be limited to IMF levels and to budgetary support only.

¶31. (SBU) The Secretariat reported that it had received a request from Houlihan for a meeting, but that no details of a proposed workout had been provided so far. Comparability would be a difficult issue, given the $230 million private debt recently announced to be restructured. A data call would be forthcoming.

TOGO

¶32. (SBU) The Fund reported that Togo had been heavily affected by the global situation, exacerbated by recent flooding. As a result growth would be less than 1 percent, inflation had risen to 10 percent, and the current account deficit had soared from 6.5 percent of GDP to 11 percent. Fund staff was working with the GOT to mitigate social impacts and avoid agricultural price controls. A modest recovery was expected in 2009, however, and the program was

on track, with good fiscal discipline and appropriate responses to policy shocks. Arrears to the World Bank and African Development Bank had been cleared, and donors had pledged rapid assistance. The preliminary HIPC document had been issued the previous month, showing debt of $2.2 billion at end-2007, equivalent to $1.4 billion in NPV terms after traditional relief. The preliminary Debt Sustainability Analysis (DSA) indicated that Togo met the fiscal window requirement for HIPC, so decision point could be reached in November. The Common Reduction Factor would be 19 percent, with HIPC relief of $270 million in NPV terms, and MDRI relief of $404 million.

¶33. (SBU) The Secretariat suggested that Togo could be provided its

Cologne Terms treatment by written communication (rather than a face-to-face negotiation), since Naples terms had already been agreed. (The U.S. is a de minimis creditor, owed less than $6,500.) The Secretariat also polled creditors as to whether they intended to sign two bilaterals, or to collapse the Naples and Cologne treatments into one. Germany, Italy, the Netherlands, Sweden, Switzerland, and the U.K. all indicated that they planned one agreement; Austria, Belgium, France (which had already signed its bilateral), and Spain intended to sign two. Japan reported that its debt was all post-cutoff date, so no bilateral would be necessary.

Methodological Discussion:
Outreach to Official Bilateral Creditors

¶34. (SBU) The Secretariat had released a brief paper on the Club's outreach efforts to non-member bilateral creditors. The paper essentially divided these into three groups: (1) countries that were close to the Club, particularly Brazil, Israel and South Korea; (2) the larger group of creditors, including non-Club OECD and EU members; and (3) the "new frontier," including countries like China, India and the Gulf countries.

¶35. (SBU) There was general agreement that countries in the first group should be drawn closer to the Club, and offered increased participation in Tours de Horizon and other activities. With regard to the second group, there was a general wariness, particularly given the number of countries potentially involved. It was agreed that the Secretariat should attempt to gather more information on

the various countries' role as creditors before moving forward. South Africa and Turkey stood out from within this group, however, as several members agreed there could be a strong political advantage to including those two in particular. With regard to the third group, it was agreed to continue technical-level contacts with the hope of establishing more regular dialogue.

¶36. (U) In this context, the working paper had mentioned an outreach meeting scheduled for October 27. The U.S. asked about this; the Secretariat responded that it had been mentioned during the July meeting, and was intended to allow other creditors to explore paths of cooperation and to ask questions, as well as to discuss the format of the 2009 private sector meeting. The Secretariat had invited eight non-Club members that had participated in the June meeting with the private sector (Abu Dhabi, Brazil, China, Israel, Korea, Kuwait, South Africa and Turkey), as well as Malaysia, Romania and Bulgaria. The Secretariat promised a full readout.

Methodological discussion: Update on
the Ongoing Work with Private Creditors

¶37. (SBU) The Secretariat reported that it had had some further contacts with the Institute of International Finance (IIF) on the subject of litigating creditors, in particular with the goal of having IIF members echo Club members' commitment not to sell claims

on HIPCs to entities that might not provide comparable treatment. The IIF was generally not amenable to the idea, but had agreed to undertake some diagnostic work with the Fund and Bank. However, to

date, IIF's response had been very disappointing. The Secretariat noted there were two options: wait for the IIF to complete its diagnosis and return to the Club with a proposal, or encourage IIF to be more active but allow the Fund and the Bank to complete the diagnosis. The Secretariat was concerned about IIF's apparent reticence and requested that Fund and Bank representatives reach out to IIF colleagues to stress the importance of this subject. (Note: As with outreach to bilateral creditors (above), the Secretariat took from the June 2008 discussions a Paris Club "decision" to pursue these two efforts, whereas the discussions had pointed more to the possibility of establishing these two working groups.)

¶38. (U) Somewhat separately, Germany noted that the annual World Bank survey of litigating creditors had missed much of Congo-B's exposure; the IMF noted that the survey revealed more litigation than in previous years because of the inclusion of Liberia.

Methodological discussion:
Seniority Rules

¶39. (U) The Secretariat had circulated a paper designed to create a doctrine of seniority, based on long-standing criteria - deferred maturities are senior to all others, post cut-off and short term debts are senior to pre cut-off, arrears are senior to maturities coming due, Overseas Development Assistance(ODA) debt is senior to non-ODA. The paper then consolidated the various combinations into a hierarchy of 32 categories, starting with non-Previously Rescheduled Debt (NPRD) NODA maturities, and ending with moratorium

interest on post cut off short term debt. There were many questions about the methodology; the U.S. in particular asked whether practice had always followed hierarchy (in particular, making the ODA/non-ODA distinction subsidiary to the others). The Secretariat indicated that practice had actually been mixed, and that the paper was intended to be advisory, demonstrating the ambiguity of what had been done in the past and indicating the flexibility possible for future arrangements. That need for flexibility became evident the next day, in negotiations with Djibouti.

Methodological Discussion: Entry into Force
of Phases of Paris Club Agreements

¶40. (U) The Club's paper on entry into force of phases, which had been revised after the previous meeting, was discussed again. The paper had been significantly clarified, although some issues remained unclear. There was relatively little discussion, although the U.S. sought a clarification on whether "middle" phases could be skipped (answer: yes; and if it derailed a Fund program they would have to renegotiate) and raised concerns about a provision in the accompanying Chairman's Summary about "giving up billing" on moratorium interest. The Secretariat replied that this formulation had been in a March 2000 version of the Summary.

Negotiations with Djibouti

¶41. (SBU) The second day of the Paris Club meeting consisted of negotiations of Evian Terms treatment to support Djibouti's new PRGF. Unfortunately, the letter the Djiboutians sent to the Club

requesting treatment had not indicated what treatment they sought, and the delegation seemed not to know what was expected of them. Agreement on terms was reached fairly easily, but the major sticking point was one of inter-creditor equity over port authority loans. When it came time to sign the agreement, the Djibouti delegation surprisingly announced it wanted to exclude some debts to Spain and Germany, claiming the loans were illegitimate, even though Djibouti had previously accepted those loans, in writing, during the reconciliation process. In his concluding remarks, the Djiboutian Secretary-General indicated that the Agreed Minute was an important first step but the real negotiations would occur during completion of the bilateral implementing agreements. Additional details of the Djibouti negotiations will be provided septel.

¶42. (U) The regularly scheduled November meeting was cancelled and will instead be conducted via teleconference. The next Paris Club meeting is scheduled for December 10-12.

¶43. (U) For more detailed information on any of the above-mentioned countries, please contact EEB/IFD/OMA David Freudenwald or Nicholle Manz.

¶44. (U) Minimize for Tripoli considered.
STAPLETON